

SERVICE DATE – FEBRUARY 27, 2012

SURFACE TRANSPORTATION BOARD

NOTICE

Docket No. EP 689 (Sub-No. 3)

SIMPLIFIED STANDARDS FOR RAIL RATE CASES—  
2010 RSAM and R/VC<sub>>180</sub> CALCULATIONS

Decided: February 24, 2012

In this decision, the Board is publishing the most recent revenue shortfall allocation methodology (RSAM) and revenue-to-variable cost greater than 180% (R/VC<sub>>180</sub>) ratios for the Class I carriers (for the years 2007-2010), as well as their 4-year averages, for use in Three-Benchmark cases.

Under 49 U.S.C. § 10701(d)(3), the Board is directed to “establish a simplified and expedited method for determining the reasonableness of challenged rail rates in those cases in which a full stand-alone cost presentation is too costly, given the value of the case.” In Simplified Standards for Rail Rate Cases, EP 646 (Sub-No. 1) (STB served Sept. 5, 2007),<sup>1</sup> the Board modified and clarified its guidelines for such proceedings by establishing a simplified Stand-Alone Cost test for medium-sized cases, clarifying its Three-Benchmark approach for the smallest disputes, and establishing eligibility thresholds for each type of case. The Three-Benchmark approach compares a challenged rate to three measures of the defendant’s revenues and variable costs.

The first benchmark, RSAM, measures the average markup that the railroad would need to charge all of its “potentially captive” traffic in order for the railroad to earn adequate revenues as measured by the Board under 49 U.S.C. § 10704(a)(2). Potentially captive traffic is defined as all traffic priced at or above the 180% R/VC level, which is the statutory floor for regulatory rail rate intervention. See 49 U.S.C. § 10707(d); Burlington N. R.R. v. STB, 114 F.3d 206, 210 (D.C. Cir. 1997); W. Tex. Util. v. Burlington N. R.R., 1 S.T.B. 638, 677-78 (1996). The RSAM benchmark is calculated by adding the carrier’s revenue shortfall (or subtracting the overage) shown in our annual revenue adequacy determination, adjusted for taxes, to the numerator of the R/VC<sub>>180</sub> benchmark. Simplified Standards for Rail Rate Cases—Taxes in Revenue Shortfall Allocation Method, EP 646 (Sub-No. 2), slip op. at 2-3 (STB served May 11, 2009).

The second benchmark is R/VC<sub>>180</sub>. This benchmark measures the average markup over variable cost earned by the defendant railroad on its potentially captive traffic. Simplified

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<sup>1</sup> Aff’d sub nom. CSX Transp., Inc. v. STB, 568 F.3d 236 (D.C. Cir. 2009), and vacated in part on reh’g, CSX Transp., Inc. v. STB, 584 F.3d 1076 (D.C. Cir. 2009).

Standards for Rail Rate Cases, EP 646 (Sub-No. 1), slip op. at 10. The  $R/VC_{>180}$  benchmark is calculated using the Board's confidential Waybill Sample data<sup>2</sup> by dividing the total revenues earned by the carrier on potentially captive traffic by the carrier's total variable costs for that traffic. Id. at 20. The ratio of RSAM to  $R/VC_{>180}$  provides an estimate of how much more or less the railroad would need to charge its potentially captive traffic to be revenue adequate. Id.

The third benchmark is revenue-to-variable cost comparison ( $R/VC_{COMP}$ ). This benchmark is used to compare the markup on the challenged traffic to the average markup assessed on other potentially captive traffic involving the same or a similar commodity with similar transportation characteristics. Id. at 10. The  $R/VC_{COMP}$  ratio for appropriate comparison traffic is computed using traffic data from the rail industry Waybill Sample and applying the Board's Uniform Rail Costing System. Id. at 10-11.

The Board publishes tables each year showing the most recent RSAM and  $R/VC_{>180}$  ratios for each Class I railroad, as well as their rolling 4-year averages. Because  $R/VC_{COMP}$  is case specific, that ratio is calculated only after a shipper files a Three-Benchmark rail rate complaint.

The attached tables contain the most recent RSAM and  $R/VC_{>180}$  ratios. Tables I and II represent percentages for the most recent 4-year period 2007 to 2010 for all Class I carriers. Interested readers may review the workbooks used to compute the data in these tables by visiting our website at <http://www.stb.dot.gov/stb/index.html> (open "Industry Data" menu; then open "Economic Data" menu; then follow "Financial & Statistical Reports" hyperlink; then follow "RSAM 2007-2010 Tables" and "2010 RSAM Computation" hyperlinks).

By the Board, Dr. William F. Huneke, Chief Economist.

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<sup>2</sup> The Waybill Sample is a statistical sampling of railroad waybills that is collected and maintained for use by the Board and by the public (with appropriate restrictions to protect the confidentiality of individual traffic data). See 49 C.F.R. § 1244.

**Table I****RSAM Mark-up Percentages 2007 – 2010**

<b>Railroad</b>	<b>4-Year Average</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
BNSF	253%	265%	253%	242%	254%
CSXT	293%	273%	313%	282%	304%
GTC	309%	289%	371%	290%	285%
KCS	327%	282%	387%	331%	308%
NS	265%	277%	318%	238%	226%
SOO	301%	319%	395%	319%	171%
UP	258%	231%	268%	257%	278%

**Table II****R/VC<sub>>180</sub> Percentages 2007 – 2010**

<b>Railroad</b>	<b>4-Year Average</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
BNSF	223%	219%	221%	221%	232%
CSXT	255%	271%	259%	246%	245%
GTC	254%	253%	251%	250%	260%
KCS	247%	244%	251%	236%	255%
NS	266%	276%	266%	266%	255%
SOO	233%	226%	245%	230%	232%
UP	233%	238%	233%	232%	230%